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# Romania

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# Romania

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# GEOGRAPHY

Romania is located in Southeastern Europe, bordering the Black Sea, between Bulgaria and Ukraine. The total area is 238,391 km<sup>2</sup>. Land boundaries total 2,528 km; shared with Bulgaria 608 km, Hungary 443 km, Moldova 450 km, Serbia and Montenegro 476 km (all with Serbia), and the Ukraine 551 km.

Romania's climate is temperate; cold, cloudy winters with frequent snow and fog; and sunny summers with frequent showers and thunderstorms. The terrain of the central Transylvanian Basin is separated from the Plain of Moldavia on the east by the Carpathian Mountains and separated from the Walachian Plain on the south by the Transylvanian Alps. Natural resources include petroleum

(although reserves are declining), timber, natural gas, coal, iron ore, and salt.

Romania is optimally located at the cross-roads of traditional trade routes, allowing access to 200 million customers within a 1,000 km radius. Administratively, Romania is divided into 41 counties, which represent 262 towns, and 2,686 communes; Bucharest holds county status.

A number of environmental problems are a major concern of politicians and the business community, including air pollution from industrial emissions in the south; soil erosion; and water pollution and contamination of the Danube delta wetlands. In addition, earthquakes occur in the south and southwest.



# DEMOGRAPHICS

The population of Romania reached 22.6 million in 1996. Twenty-one percent of the population is under 14 years; 67 percent is between 15-64 years; and 12 percent is 65 years and over. The largest concentration of the population lives in Bucharest (2.054 million), while Constanta, Timisoara, Galati and Brasov have a population of approximately 330,000 inhabitants each, and another 25 cities have populations exceeding 100,000. Overall, close to 54 percent of the total population live in the urban areas.

The population growth rate was 0.09 percent in 1995. The birth rate reached 13.71 births per 1,000 population, while the death rate was 9.93 deaths per 1,000 population. The net migration rate was minus 2.88 migrants per 1,000 population. Demographic indicators are presented in Table 1.

The nationality is Romanian. Ethnic divisions include: Romanian (89.1 percent), Hungarian (8.9 percent), German (0.4 percent), Ukrainian, Serb, Croat, Russian, Turk, and Gypsy (1.6 percent)

Religions include: Romanian Orthodox (70 percent), Roman Catholic (6 percent, of which 3 percent are Uniate), Protestant (6 percent), and unaffiliated (18 percent).

Languages spoken include Romanian, French (mandatory in schools), Hungarian, German and English.

**Table 1:**  
**Demographic Indicators**

Population (million)	22.6
Population Density (1994)	95.8 per km <sup>2</sup>
Population by Age	
0-14	21%
15-64	67%
65+	12%
Literacy Rate	97%
Population Growth (% 1992-1995)	0.09%
Urban Population (% of total, 1994)	54%
Human Development Index (ranking out of 174 countries, 1992)	98
Cities with over 1 million Inhabitants (1995)	Bucharest, 2.1 million
Growth Rate of Largest City (% 1990-95)	0.4%

Sources: EIU, 1995; UNDP, 1995; WB, 1996



## ECONOMIC OVERVIEW

Romania started its transition to a market economy from an initially difficult condition. The legacy of the communist regime, extreme centralization, a high degree of bureaucracy, and no experience of partial reforms such as those undertaken in other Central European economies during the 1980s, left Romania with one of the longest paths towards a market economy for which it was the least equipped sociologically and politically.

Much of the legislative framework and reform agenda for a market economy is now in place, including the establishment of a two-tier system of banking, the introduction of a modern tax system, the freeing of most prices and elimination of most subsidies, and the adoption of a tariff-based trade regime. In spite of evident successes, Romania has still a long way to go to achieve real economic reform. Stiff opposition from conservatives has greatly slowed the implementation of market-economy legislation and, especially, progress in industry restructuring and privatization. Only about 1,300 of the 6,300 state firms slated for privatization under the existing law have been completed, mainly through management-employee buyouts; and only about 12 were large enterprises employing over 2,000 workers.

Signs of economic recovery were evident in 1995, when GDP increased by 6.9 percent. Inflation fell to 34 percent in 1996, from 137 percent in 1994, due to tight fiscal policies. Economic reforms have created a dynamic import oriented private sector, that accounted for 45 percent of GDP in 1995. In addition, GDP per capita in 1995 was \$4,333, a substantial increase compared to 1994. However, unemployment remains moderately high; over 7.0 percent in July 1996, and the total foreign debt stood at \$5.44 billion in March 1996. Although economic recovery might be fragile, Romania has made considerable progress in establishing a free market economy, and the country appears positioned for modest economic growth in the future.

Romania's reforms, economic performance, and business climate have attracted considerable foreign investment. According to the Romanian Development Agency, foreign direct investment in

1996 totalled \$1.86 billion, while the number of companies with foreign capital participation was 43,588. Investment flows come from 175 countries, with 75 percent of the capital from OECD member states, especially Italy, Germany, South Korea, France, the Netherlands, and Turkey. Key economic indicators and projections are illustrated in Table 2.

The most encouraging developments have been the continuing expansion of exports, an improvement in investment and the containment of inflation. The Romanian government stressed its commitment for stimulating the exports, establishing closer links with the European Union (EU), and pursuing foreign investment generally, but with specific attention to key sectors (oil, food, tourism, infrastructure, machine building and petro-chemicals).

**Table 2:**  
**Key Economic Indicators and Projections**

	1994	1995	1996 (est.)
Real GDP (% growth)	3.9	6.9	
GDP per capita (US\$ at Purchasing Power Parity (PPP))	3,070	4,333	N/A
Gross Nominal Monthly Wages (US\$)	146.2	147.7	N/A
Private sector share of GDP (%)	38.9	40	60
Unemployment Rate (%)	10.9	8.7	7.5
Inflation Rate (%)	62.0	32.0	34.0
Gross Debt (US\$ billion)	-	-	5.44
Trade Balance (\$ billion)	-0.958	-1.891	N/A
Foreign Direct Investment (US\$ million)	340	400	1,860

Sources: EIU, 1995, 1996; ECE, 1996, WB, 1996

### World Bank Economic Assessment

Since the revolution of December 1989, the Romanian government has developed a comprehensive reform program and established much of the legal framework necessary for the

transition to a market economy. However, the economy bequeathed by the Ceaucescu regime was very poorly positioned to face the challenges of economic transition. Romania was not only over-industrialized and energy-inefficient, but also produced a large variety of uncompetitive goods with obsolete capital stock in many branches of economic activity.

In 1991, Romania began to implement ambitious economic reform programs. Their results have been considerable, and include the enactment of a new constitution guaranteeing property rights and establishing the legal framework for a market economy. The government has also implemented several stages of price liberalization, trade reform and subsidy reductions. It has established a two-tier banking system, and has developed indirect instruments of monetary control, including the introduction of the VAT which reduces the government's role in the tax system. Romania has also developed a framework for privatizing over 6,000 enterprises.

However, there is mounting evidence that poverty has increased substantially during the transition, from about 4 percent of the population in 1989 to 20 percent in 1994. An overall decline in economic activity (almost 30 percent since 1989) appears to be the main cause of households falling into poverty. The government is sensitive to the increase in poverty and is working to improve the targeting of its social protection programs.

The initial years of transition were difficult for Romania. Between 1989 and 1992 output fell by 30 percent, with industrial output falling by 44 percent. In 1993, a more mixed picture emerged. Growth in output became positive for the first time since 1988, registering a 1 percent increase with agriculture contributing to the most positive turnaround with a growth of 14 percent. Nonetheless, with inflationary expectations deeply

embedded and continuing negative deposit rates (in real terms), the flight of domestic currency continued, and inflation accelerated to 256 percent in 1993. Unemployment also rose to 10.2 percent of the labour force.

Faced with hyper-inflation, the government adopted a strong stabilization program in late 1993. The budget was balanced mainly through the elimination of consumer subsidies. Tight credit policies were also pursued, accompanied by very sharp increases in real interest rates. The exchange rate regime was progressively reformed, and incrementally liberalized through 1994. As a result, inflation dropped to 62 percent by December 1994; output grew 3.9 percent, and exports increased by 24 percent in dollar terms in 1994. The rise in exports was partly due to the increase in access to EU markets.

This good performance was only partially sustained through 1995. Inflation continued its downward course to reach 32 percent by the year's end, and growth rose to about 6.9 percent. However, the rise in economic activity was accompanied by sharp increases in deficits of state-owned enterprises, although export performance was good with exports growing by 9 percent in 1995.

Romania has a number of advantages which could provide a basis for renewed growth in the medium-term. The labour force is literate and skilled, and wages are relatively low by international comparison, allowing for a competitive advantage in a number of exports. In the early 1980s, Romania was a competitive exporter of textiles, wood products, machinery, and light consumer goods. In time, Romania may recapture those lost market shares. Presently, agricultural products and tourism have the highest export potential.



## ***POLITICAL OVERVIEW***

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Romania is a Republic with a two chamber Parliament according to the constitution adopted in 1991. The Romanian government is comprised mainly of young urban and business groups. With its calls to align Romania towards greater alliances with the European Union (EU) and NATO, the centre-right coalition looks encouraging for foreign businesses. Immediate government priorities are related to strict fiscal policy, the promotion of investment, and private sector development. In addition, the government is

committed to improving regional politics and relationships. Romania is preoccupied with not falling behind the central Europeans in the race for integration with the West. Consequently, they became a member of the Council of Europe in 1993 and acquired associated membership in the European Union in 1995. In addition, Romania has diplomatic relations with 175 states. While tensions with the large Hungarian minority are endemic, they are under control at the present.

## ***TRADE POLICY***

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Trade liberalization has been a major part of the reform process. However, the loss of Soviet markets, coupled with an imbalanced restructuring, have resulted in a negative trade balance; in 1996, the trade deficit continued to increase. While the European Union (especially Germany, France, and Italy) is Romania's largest trading partner, accounting for 45 percent of its trade, trade volumes with Russia, Turkey, and the U.S. are also significant.

To normalize the situation in a vital sector for the smooth running of the national economy, the Romanian government has redefined its foreign trade policy, putting at its centre, the country's integration into Western markets. As a result, Romania has sought association with the European Union (EU) and the European Free Trade Association (EFTA). About half of Romania's foreign trade is now conducted with EU and EFTA member countries.



# HOUSING CONDITIONS

Since the beginning of the transition process, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. Although the quality varies tremendously, Romania's housing stock, in a strictly numerical sense, appears to be adequate for the near future. In 1992, despite a dramatic drop in housing production from pre-revolution levels, the number of dwellings (7.66 million) exceeded the number of households (7.32 million), by about 350,000 units. Doubling up among households is rare; in 1992 only one percent of households shared their units with one or more other households.

Overall, Romania has a ratio of 335 housing units per 1,000 inhabitants. Recent policy reforms have changed existing tenure structure. The proportion of owner-occupied units in 1994 was close to 90 percent, while it was 80 percent in Bucharest. In addition, the share of the private rental sector increased significantly reaching 3 percent (10 percent in Bucharest). Housing consumption also rose between 1977-94 with the average floor space per person increasing from 8.9 m<sup>2</sup> to 17.4 m<sup>2</sup>.

The number of households exceeds the number of dwellings in Bucharest. Overcrowding, reflected in the ratio of persons per room, is as high as 1.4 in the public rental sector. Density indicators also highlight another dimension of housing problems: the size of dwellings and number of rooms are inadequate compared to the size of the household, particularly in the public sector. A disproportionately high number of households (56 percent) live in one and two-room flats. Governments at both the local and federal levels have committed to building 1 million units over 5 years to alleviate part of the overcrowding problem. Table 3 shows housing conditions by tenure type in 1994.

The poor quality of the existing housing stock has attracted significant public attention in Romania. Water supply and sewerage systems are generally better developed in Bucharest. However, close to 50 percent of the dwellings nationally, have no piped sewer systems, and bath or shower facilities. The technical infrastructure in the rural areas, in the owner-occupied sector in particular, is poor.

**Table 3:**  
**Housing Conditions by Tenure Type, 1994**

Tenure Type	Percentage of the Housing Stock	Household/Dwelling	m <sup>2</sup> /Person	Persons/Room	Number of Units (000s)	Units in Single-family Buildings (%)	Units in Multi-family Buildings (%)
Public rental*	7.8	0.95	15.3	1.4	600.7	55	45
Bucharest	10.4	1.01	17.6	1.3	80.8	17	83
Owner-occupied*	88.9	0.95	17.9	1.1	6,880.8	55	45
Bucharest	79.2	1.01	19.7	1.0	611	25	75
Private rental*	3	N/A	N/A	N/A	232	30	70
Bucharest	10	1	18.6	1.3	77	30	70
Other*	0.3	0.89	20.6	1.2	30	40	60
Bucharest	0.4	1	25.1	0.9	3.1	70	30
Total*	100	0.95	17.4	1.2	7,743.5	—	—
Total Bucharest	100	1.01	19.4	1.1	771.9	—	—

\* The data reflects housing characteristics at the national level.  
Source: MRI, 1996

**Table 4:  
Housing Quality Characteristics**

	Piped Water (% of flats)	Piped Sewer (% of flats)	Bath or Shower (% of flats)	District Heating*	Housing Built Since 1945 (%)
Romania	63.2	48.6	48.2	38.6	76.0
Bucharest	96.0	90.0	84.0	82.5	N/A

N/A - Not Available

\* Defined as percentage of dwellings provided with any heating installation serving one building or one flat unit.

Source: MRI, 1996

District heating is more widespread in Bucharest where the share of dwellings serviced by the system is close to 83 percent. Substandard housing amounts to 1 percent in the owner-occupied sector and 2.5 percent in the public rental housing, while the share of inadequate housing in Bucharest is close to 5.9 percent.

The distribution of the housing stock by age and type is very diverse, although 76 percent of the housing stock was built after World War II. A large proportion of the housing in the larger urban centres of Constanta, Timisoara, Galati and Brasov is relatively uniform, consisting of mass-produced highrise apartment buildings. State enterprises produced close to 13,000 units per month in the mid-1980s. Overall, there is a limited choice of housing types, styles and quality levels. It should be noted that the percentage of apartment buildings in Bucharest is very high at 83 percent in

the public rental sector and 75 percent in the owner-occupied sector. This situation creates a number of problems related to the maintenance and management of the existing stock, which in terms of owner-occupied single-family housing, constitutes approximately 55 percent of the housing stock. Table 4 shows housing quality characteristics.

Expert evaluation indicates that:

- more than 2.5 million flats need improvement of their heating systems, a thermal retrofit, and upgrading of the sanitary equipment;
- about 450,000 homes affected by three successive earthquakes need major repair and consolidation work; and
- about 30 percent of the houses in the urban areas require major rehabilitation.

# HOUSING SECTOR

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## Overview

In 1992, the government adopted the Guiding Principles of the National Strategy for Housing, with goals including: the maintenance and rehabilitation of the housing stock; the improvement of housing management; the reform of housing financing; the completion of unfinished units; and the construction of new housing. Subsequent housing reforms have focussed on property rights, restitution, privatization and the restructuring of the housing sector. However, subsidy cuts have contributed to the sharp decline in housing input, decreased capital investment in the sector, and substantially reduced the flow of municipal housing services.

## Relevant Regulatory Systems

The Romanian government has rapidly transferred the vast majority of the public housing stock to private hands. Even under communist rule, Romania had a sizeable number of homeowners. In 1977, about 97 percent of the rural stock and 55 percent of the urban stock was in private ownership. By 1992, 96 percent of rural housing stock and 63 percent of urban stock was in private ownership. By 1995, the public stock decreased to 347,000 dwellings following a massive privatization to sitting tenants. The sale of public housing proceeded rapidly in Bucharest where the city privatized over 400,000 units between 1990-94, close to 88 percent of the state-owned housing stock.

A decree for the privatization of state-owned housing was adopted in 1990. Housing was sold to sitting tenants by granting long-term credits at a 3-percent interest rate. The revenue was channelled into a special fund for the completion of unfinished housing. Another decree passed in 1992 expanded the rights of tenants to buy enterprise or other public housing under the same conditions, but at an indexed price.

A number of new regulations, laws and guidelines exist in Romania, providing the legal framework for the housing sector. The Communist legislation is gradually being replaced regarding the most

important issues such as: property rights; the privatization of dwellings and land; property tax; physical planning; and construction.

The Constitution of Romania, adopted in 1991, defines and guarantees property rights. The Law on Local Public Administration emphasizes the responsibilities of municipalities, the decentralization of public services, the right to raise local taxes, to approve urban planning documents, to lease and sell municipally owned assets, and to transfer management rights through competitive bidding. According to the Law on Local Taxes and Charges adopted in 1994, taxes on building are 1-1.5 percent of the registered value, while taxes on land vary according to the category of the community and the location. In addition, building permits cost 2 percent of the construction cost (1 percent in the case of housing). With respect to housing, the Law on Stimulating Investment in Public Works and Housing, adopted in 1994, addresses the problem of unfinished housing. It introduced provisions for access to a grant of 500,000 lei, or 30 percent of the value established by the contract for an apartment, payable to first-time buyers, married couples under 30, and disabled persons.

The Law for Authorizing of Building Permits (1991) sets categories of urban planning documents and outlines the stages in the approval process. In addition, a major effort has been made to develop unified European Union (EU) standards, particularly in areas such as: construction and fire safety, energy efficiency, and system and quality guarantees. A centralized system of certifying construction companies according to European standards, is currently being developed.

## Housing as a National Priority

Restitution has been delayed by cumbersome processing procedures; approximately 241,000 units are awaiting the resolution of restitution claims. This nationalized stock contains some of the best and the worst housing in the country. Most properties are in attractive inner-city locations; however, they have been subdivided to



house a large number of families. Consequently, the stock needs considerable rehabilitation. On the other hand, some of these units are villas located in the best neighbourhoods of Bucharest, and rented out by the state to foreign businessmen and embassies.

## Key Housing Market Institutions

The Ministry of Public Works and Regional Planning is responsible for coordinating building activities, planning major construction projects, and defining housing and construction policies. The Ministry works closely with the Ministry of Finance, and the Ministry of Justice particularly, in developing the legal and financial framework for housing and urban reforms. Major interests are represented by: the Civil Engineers Union, the Building Contractors Union, the Romanian Contractors Association, the Union of Architects and the Association of Real Estate Brokers.

Other important institutions in the housing sector are private construction companies and developers.

## State of the Local Housing Market

A massive decline in housing output was the initial effect of the retreat by the state from the provision of housing. Although private housing investment increased considerably, it was not sufficient to offset the massive decline in state subsidies. Housing investment was \$US146 million in 1994 (only 0.05 percent of GDP), a considerable drop compared to \$US 260 million in 1990. Table 5 shows housing investment in Romania for the period 1990-94.

The production of new housing decreased dramatically from 7 units per 1,000 in the 1980s,

to a record low of 1.2 in 1992, while a slight increase of 1.6 was registered in 1996. In the mid-1990s, housing starts had fallen to an extremely low level of 36,743 units. Housing output by 1994 was close to one third of the output reached in 1980, while the situation in Bucharest indicates an output growth of nearly 80 percent, due to a dynamic private sector. Reportedly, housing output nationally, declined further to less than 35,000 units in 1995, of which 75 percent was privately financed housing. The shift from new construction to renewal and rehabilitation is occurring which might offset declines in new construction to a considerable degree.

**Table 6:**  
New Housing Units by Type of Developer

	1980	1990	1994
Number:			
State and local government	100,623	42,820	12,126
Other public bodies	N/A	896	14
Private persons	7,514	5,779	24,603
Total	108,137	48,599	36,743
Bucharest:	N/A	6,904	3,016
State and local government			
Private persons	N/A	63	7,244
Total	N/A	6,967	10,260

Source: MRI, 1996

The transition from a planning economy to a market economy has resulted in the considerable growth of private sector involvement in the supply of new housing. Although it has increased more than three times compared to 1980 levels, private sector activity is considerably affected by the recession, sharply rising prices, inflation, and falling real incomes. Due to financial difficulties, a large number of dwellings cannot be completed. Since funding from the state for housing projects was eliminated in 1989, some 24,000 units in Bucharest were offered through competitive bidding to institutional and foreign investors. This process has worked well, however 14,800 units still remain unfinished. Though the overall situation in the housing sector is improving, the outlook for growth is not good. Output levels are

**Table 5:**  
Housing Investment 1990-94  
(US\$ million)

	State and Local Government	Private Persons	Total	Share of GDP
1990	230	30	260	0.9
1994	29	117	146	0.05

Source: MRI, 1996

expected to barely reach half of the construction level of the pre-transition period by the year 2000. Table 6 shows the distribution of new housing units by type of developer.

Land costs vary widely according to the size of the city and location. Land costs defined as a percentage of the total house price in typical new housing development are 32 percent in Romania. Serviced land is four times more expensive, compared to undeveloped land with planning permission for residential construction. In 1994, land prices in the inner city areas of Bucharest were US\$250-350 per m<sup>2</sup>, compared to US\$5-15 per m<sup>2</sup> in the periphery. Difficulties in converting agricultural land into residential use limits the supply. While jurisdictional and titling problems are driving land prices upwards, inadequate infrastructure capacity threatens both the existing and future housing supply in some cities.

Construction costs are difficult to forecast in Lei, and estimates do not remain valid for long because of inflation and the uncertainty about the availability and cost of building materials. With construction time varying between 8-24 months, costs in 1994 were \$320-375 per m<sup>2</sup> nationally. Experts indicate that the cost of construction in 1994-96 was increasing faster than the average consumer price index. Materials account for 40 percent of the cost, labour 25 percent, capital

equipment 10 percent, transportation 10 percent, and overhead costs 15 percent. An emerging problem is the high cost of new construction relative to the price of existing units. A new unit can cost two to three times more than an existing unit with similar features. High costs may, in part, be due to the use of outdated construction technology.

**Table 7:**  
**Costs and Size of Newly Built Units**

	Land cost	Construction cost	Number of rooms	Average size of newly built units
National	32	320/375	2.88/ 3.07	42.5
Bucharest	N/A	384/432	2.51	70.5

Source: MRI, 1996

The shift in consumer preferences, and the major changes in the structure of the housing industry have led to changes in the type of newly built urban housing. The physical and design characteristics of apartment buildings have broadened in the last five years. However, the average size of newly built units has increased to 70 m<sup>2</sup> in Bucharest, while the standard is considerably lower. Table 7 provides statistics on costs and size of newly built units.

# MATERIALS, LABOUR AND FINANCING

## Overview

The privatization of the building industry has been very slow. By the end of 1994, only 106 state-owned companies were privatized. However, a number of new private firms have emerged with the potential to operate more efficiently in the market environment. In 1994, the number of private building companies reached 4,006, with close to 176,000 employees. Furthermore, over 75 percent of those companies are private corporations with less than 50 employees. Nonetheless, state-owned firms still control key building supplies and heavy equipment. Table 8 shows the structure of the building industry in 1994.

**Table 8:**  
**Structure of the Building Industry, 1994**

Indicator	Number
Public corporations	493
Public employees	243,839
Private corporations	4,006
Private employees	175,935
Companies with:	
0-49 employees	3,909
50-99 employees	265
100-499 employees	276
500+	49
Total Corporations	4,499

Source: MRI, 1996

With the housing industry in Romania in the process of restructuring, a wide range of different organizations varying by size and expertise have emerged. With the decline of state-funded housing, small house building and renovation firms have shifted to upscale housing and commercial projects to survive. A large share of new private housing construction consists of luxury apartment complexes and villas, many of which are being built with the assistance of foreign investors.

## Materials

The building materials industry in Romania was developed to accommodate the needs of a growing construction industry. In the early 1980s, the state construction enterprises were reporting the completion of 13,000 units per month. In addition, the production capacity of key products such as cement, ceramic tiles, window glass, steel pipes, and bathroom equipment exceeded the requirements of the domestic market. Though the output in the building materials sector has dropped in the last four years due to reduced domestic demand, the building materials industry, which is one of the few resource-based sectors in Romania, has maintained steady export levels of key products.

## Labour

In 1994, total employment in the construction sector reached 419,774 employees (5.5 percent of the total work-force), of which only 15.2 percent were privately employed. Research suggests that the number of employees is increasing by 10 percent due to the steady acceleration of construction activities, particularly in urban infrastructure projects. By law, blue collar workers have a 48-hour work-week, and while minimum health and safety standards for the workplace exist, they are sometimes ignored. In addition, labour unions hold little political power.

## Financing

A market-based housing financing system does not exist however, the new government is committed to creating such a system as the economy stabilizes. The major banks are still state-owned. The state-owned Savings Bank accounts for over 50 percent of total deposits. Housing credit has been largely confined to concessional loans to bank employees and to participants in government programs. Inflation, high interest rates, low incomes, high construction costs, and a preponderance of short-term liabilities, make lending for housing an unattractive venture for banks.



In the absence of a market-based housing financing system, households have been self-financing most new construction on an instalment basis. While existing homes are typically purchased using a single cash payment, new housing is financed by prospective homeowners, and paid for usually a year in advance. Most sales prices vary from US\$400-1,200 per m<sup>2</sup>.

The inaccessibility of formal housing finance through financial intermediation, reduces the circle of housing investors, and acts as a significant barrier for the efficient performance of housing markets. The lack of adequate housing finance is a major constraint for both new housing construction and renewal, hence the new government's interest in creating a domestic mortgage system.

# HOUSING MARKET ACTIVITY, NEED AND DEMAND

## Local Housing Activities

The huge transfer of wealth that accompanied housing privatization has sparked the development of a private housing market. The number of transactions has increased from 38,775 in 1989, to 226,399 in 1993. Although it is difficult to gauge its magnitude, in part because tax evasion has turned it into a grey market activity, a rental market has also developed. Brokers serving both the sale and rental markets have appeared, and newspapers and television broadcasts regularly carry real estate advertisements.

The housing market activity includes property transactions of privatized and restituted housing, as well as exchanges within the existing owner-occupied stock. There were about 39,000 resales in Bucharest in 1993. A new diverse system of house prices has emerged reflecting location, quality, accessibility and level of services. This has resulted in the formation of distinct housing sub-markets in the urban structure. The general trend is towards fragmentation and differentiation of the housing market, reflected in house price maps of urban areas.

House prices are increasing, particularly in Bucharest, where a two-room apartment in the inner city might sell for \$30,000. Real estate

agents report sales in the upscale market in the range of \$350,000 for a villa. Rents for a four-room apartment in the real estate market for foreigners and wealthy Romanians can reach \$1,000, and are usually paid in hard currency. House price dynamics in Bucharest in 1994 are shown in Table 9.

## Factors Affecting the Demand for Housing

Romania experienced a modest baby boom in the second half of the 1960s due to a ban on the use of birth control. This segment of the population, many now close to 30 years old, may be a source of latent demand for housing. However, the overall population has declined in recent years due to a net natural population decrease and emigration. Additional housing demand may occur in some urban areas now that residency restrictions have been relaxed. In addition, economic restructuring is likely to fuel the internal migration by people who have lost their jobs, although it is unclear whether this will push people towards or away from cities. In 1992, there were 7.32 million households in Romania, with an average household size of 3.1 persons, down slightly from 3.2 persons in 1977. In rural areas, this figure may be larger as extended families are more common.

**Table 9:  
House Price Dynamics in Bucharest, 1994**

Sale Prices of Apartments*	Business district	Historic centre	Housing estates	Urban periphery
2-room	N/A	18-30,000	6-9,000	7-10,000
3-room	N/A	30-35,000	9-12,000	10-15,000
4-room	70-80,000	N/A	10,000	N/A
Monthly Rents*				
2-room	250-350	150-250	80-100	30-50
3/4-room	350-900	250-450	150-200	80-150

\* Prices are given in US \$.  
Source: Conway et al., 1995

The average gross nominal wage in 1995 was US\$146.20, down from US\$147.70 the previous year. In addition, real wages, which have been falling through the 1990s, were about 63 percent of the 1989 levels. Positive signs of wage recovery were evident in 1996, because per capita income in June was 403,662 lei, an increase of 38 percent. Wages are the highest in the banking, property, and business service sectors, although the country's statistics fail to include managers and employees of Western companies who might earn US\$1,000-2,300 per month. Employees in the private sector might receive two or three times their official salaries in cash payments, financed by unreported enterprise revenues.

The result of the changing income distribution and social attitude is a demand for high quality flats and single-family homes from the new middle and upper-class. Various income groups are willing and also able to invest in the upgrading of their existing housing, therefore spurring an increase in renovation activity.

In terms of consumer preferences, it is important to acknowledge that home-ownership is perceived as a desirable and good investment, in an inflationary context. Investment in housing is economically attractive for individual households that channel a large portion of savings to improve their housing situation. Notwithstanding these preferences, it is expected that less than 10 percent of the households will be able to enter the housing market in the foreseeable future. However, due to the high level of home-ownership in Romania, movement in the market will have a substantial impact on the supply of new housing. In particular, the market for new housing is expected to have a small recovery.

Low wages and employment uncertainty, coupled with high housing costs and mortgage rates, have

reduced housing demand for owner-occupied housing. Even though households are prepared to pay higher costs for their housing, they have found themselves squeezed out of the home-ownership market. In 1994, the ratio of income-to-house-price in Romania was 1:4.7 (1:7 in Bucharest), with rent and utilities consuming close to 10 percent of the household budget. In addition, homeowners in utility fee arrears were close to 17 percent. By far, the biggest problem facing households is operation and maintenance of the former public housing stock. Homeowners are struggling to raise money to pay for services in an environment in which people are not accustomed to paying. Furthermore, there are no private residential property management firms in the country.

**Table 10:**  
**Housing Costs in the Owner-occupied and Rental Sectors, 1994**

	Public Sector Rentals (as a % of average income)			Owner-occupied
	Rent	Utilities	Rent and Utilities	Ratio of house-price-to-income
Romania	0.2	9.5	9.7	4.7

Source: MRI, 1996

Despite the rent increases in public sector housing, the overall rent-to-income ratio in 1994 was extremely low, in the range of 0.2 percent of the average household income. In contrast, private sector tenants spend over 50 percent of their household income on rent. Table 10 shows statistics on housing costs in the owner-occupied and rental sectors in Romania in 1994.



# EXPORT OPPORTUNITIES AND STRATEGIES

## Overview

Romania is a growing market in Central and Eastern Europe for Canadian housing products, worth \$1.71 million between 1994-95. The most dynamic growth has been observed in the export of heating, ventilation, air conditioning systems, electrical-mechanical components (146 percent), and doors and windows (107 percent), while HVAC and finishes constitute approximately two thirds of Canadian housing exports. In general, the market for construction products is volatile and experiences substantial gains and losses from year to year for particular product categories.

Exports to Romania represent a small but growing market for Canadian housing export commodities. The overall increase in most product categories was in the range of 150-200 percent in the first months of 1996 compared to the same period in 1995. The Canadian involvement in the Romanian market is diverse and includes over 30 developers, builders, and product exporters. Table 11 shows the value of Canadian building material exports for the period 1993-95.

With the successful implementation of economic and political reforms, controlled inflation, and 22 million consumers, Romania offers a number of opportunities for Canadian housing exporters.

## Export Opportunities

Exports in the residential sector of the Romanian market are quite diverse, with no country achieving a dominant position. Foreign competition comes from Germany, Italy and the

U.S. Canada's export ranking for building products in the market is low, and sales volumes are generally small.

## Renovation

The Romanian renovation industry is experiencing considerable growth in the following areas.

- **Conversion and Restoration of Centrally-located Buildings:** Inner-city residential buildings are in urgent need of restoration and retrofitting for energy efficiency. House prices in the emerging housing markets are high (over US\$500 per m<sup>2</sup>), particularly for historic buildings in close proximity to central business districts. This creates excellent opportunities for Canadian building material exporters, especially those engaged in the production of thermo-insulation and hermetic sealing materials, glass packets, light roofing materials, sanitary ware, or plumbing components. The conversion of these buildings to new mixed-uses are currently pursued by Western enterprises in Bucharest and Timisoara.
- **Rehabilitating and Energy-Retrofitting of Pre-cast Concrete Buildings:** The need for the thermal retrofitting of apartments and single-family housing is considerable. It is estimated that close to 35 percent of the existing housing, or more than 3 million dwellings, requires thermal retrofits and upgrades. The cost of those operations is in the range of 10,000 billion lei. However, the financing of retrofits in the owner-occupied housing is a challenge.

**Table 11:**  
**Value of Canadian Building Material Exports in (\$), 1993-95**

	Prefab. Buildings	Wood Products	Doors & Windows	HVAC	Roof, Floor, Wall Products	Finishes	Tools and Equipment	Total per year
1993	33,497	93,217	-	147,839	33,485	659,250	5,319	972,607
1994	28,976	40,410	44,325	119,435	64,315	-	1,683	299,144
1995	24,104	-	91,794	293,968	59,025	-	-	440,891
Category Rank	6	4	3	2	5	1	7	
Total per category	86,577	133,627	136,119	561,242	128,825	659,250	7,002	1,712,642

Source: Industry Canada's *Strategis* trade data on-line, 1996

## New House Building

There is significant pent-up demand for housing in Romania, estimated at approximately 42,000 units per year. House building in Bucharest is focussed on luxury apartment buildings and complexes. Other house completions are mainly funded through state grants to eligible households from a special housing fund for unfinished buildings. The state contributions to the fund totalled 14 billion lei in 1993 and increased to 75 billion in 1994.

- **Provision of Luxury Housing:** A promising niche market for Canadian house builders exists in the provision of luxury and custom homes on the outskirts of Bucharest, Constanta, Timisoara, and Brasov. The housing type most likely to succeed would be a traditional masonry home with a few upgrades such as HVAC, a custom kitchen, and security system. While volumes might range between 20-50 units per year, profit margins might be higher than in Canada. There are risks; however these can be reduced by careful research into the local land and housing markets.

## Construction Technologies and Building Materials

- **Technologies:** The renovation industry urgently needs efficient, modern production technologies to assist in the upgrading of residential and commercial properties. Equipment is also required for the production of lower density housing forms.
- **Building Material markets offer steady and growing opportunities, though volumes might be small:** Opportunities for Canadian housing exporters relate to modern construction materials, especially materials for light construction and fine-quality finishes, such as: plasterboard, wooden and laminated flooring, wooden baseboards, pre-finished, low-maintenance wall cladding materials, and vinyl sidings. Foreign competition in the market for building materials is mainly from German, Austrian, French, and Italian firms. High quality products, and especially brand names are comparatively expensive for the average Romanian consumer.

- **Housing Components and Value-Added Products:** Gradual changes are apparent in the types of components used in new housing construction, particularly siding, plastic and aluminum windows, and pre-hung doors. Value-added products, air-conditioning, heating, and alarm systems are competitive in the Romanian market.
- **The Do-It-Yourself market:** It is very promising, but extremely price sensitive. The best sales prospects for this market segment are: carpeting, vinyl wall coverings, vinyl floor coverings, baseboards and trims, kitchen cabinets, standardized doors in frames, hollow metal door frames, doorstops, standardized windows in frames, builders' hardware, acoustic and suspended ceilings, lighting fixtures, paints and coatings, and tools.

## Investment in the Privatization of State-owned Building Material Production

The aim of the privatization program launched in Romania in 1996 is to increase the share of the private sector involvement and to encourage foreign investment in the construction industry. Over 3,200 companies are on the privatization list and will be sold through vouchers and competitive bidding to local or foreign investors by the end of 1997. Voucher privatization is up to 60 percent of the equity of most companies. In addition, the State Ownership Fund, which accounted for 10 percent of GDP in 1994, has listed 554 companies for sale. Reportedly, a 51-percent stake is reserved for strategic investment. Canadian construction companies might benefit from these opportunities. However, investment in privatized enterprises involves the potential risks of taking over companies with a huge technical infrastructure, human resources, and obsolete corporate structures. Despite those risks, considerable opportunities for joint ventures exist with the local building materials industry, especially with respect to good quality, low-cost raw materials, and qualified labour.

## Export Strategies

The Romanian export market is promising. Strategically, the country is attractive as a gateway to the larger regional markets of Russia and Ukraine. Romania has a large, unsaturated need

for renovation, new construction, and infrastructure, and Canadian firms should position themselves to capture these opportunities.

The Romanian market offers different opportunities and potential for Canadian housing exporters. To succeed in the housing sectors of the region, it is not enough to provide the best possible service or product at the best possible price. Instead, it is essential to make the right contact, to understand the intricacies of business connections, and to be familiar with the internal workings of the legislative and regulatory environment. Several key issues need to be considered:

- The business environment is changing rapidly for the better, creating great business opportunities, but with commensurate risks.
- Opportunities for Canadian housing exporters are mostly in selected niche markets.
- The attitude towards Canadian imports is positive, but the market is price sensitive.
- There is less transparency in the business, legal and regulatory environments than in Canada, and the best way to evaluate risk is to

work closely with business experts operating in Romania.

- Detailed strengths, weaknesses, opportunities and threats analysis is recommended as part of the strategic planning process.
- Individual businesses need to decide upon a high-risk-return, or a low-risk-return strategy.
- Working with a local partner or establishing a joint venture is highly recommended in order to maximize the future position of the business in the marketplace.
- Bureaucracy continues to characterize much of the investment environment in Romania, despite attempts to create state agencies with the specific role of offering a one-stop shop for investment information.
- Business-related risks for exporters are largely associated with potential credit risks due to the lack of Western accounting and banking systems. Specific risks such as insolvency or bankruptcy carry particular dangers. There is also a deficiency of legislation providing protection against them.



# ***BUSINESS ENVIRONMENT***

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## **Overview**

Although the transition to a market economy has been relatively slow, the Romanian government's program for economic and social reform, passed by Parliament in March 1993, indicates its determination to restructure and modernize the economy, encourage privatization, and create a better and more inviting environment for foreign investors. In addition, with the 1995 passage of the mass privatization bill, the pace of structural economic reform is expected to accelerate.

In the past and, to a considerably lesser extent at present, the business climate has been affected by a perception of Romania as a country where former communists are to be found at various levels of political and economic decision-making bodies. Several extremist parties are represented in the Romanian Parliament where they have an influence disproportionate to their size. As well, human rights are not yet fully observed and the intelligence services have not been subject to adequate parliamentary control. In fact, Romania has made and is continuing to make significant progress toward the consolidation of a democratic political system and the establishment of a market economy.

Despite the existence of much of the required legislative framework and reform agenda for a market economy, there are shortcomings that make it difficult for companies that have little experience in doing business in Central Europe and only a little less so for those with experience.

Problems can be overcome by persistent efforts and a long-term view to the market and in fact, many companies indicate that Romania offers very good returns on investment because of the lack of competition. A strong recommendation is that companies only send their best and most competent representatives to work in Romania—those with experience working in overseas markets such as Central Europe.

## **Business Customs**

Romanian is the official language, French is a mandatory second language in schools; while English and German are also spoken. The Romanian business day is 8 hours long, and a business week is five days long, Monday to Friday.

The Romanian currency is the Lei. At present the internal convertibility of the national currency has been accomplished. On March 1, 1997, the exchange rate was 1 C\$ = 5,000 Lei, 1 US\$ = 7,000 Lei.

Visitors to Romania must have a valid passport and a visa. Visas are issued at Romanian diplomatic and consular offices as well as at border crossings and airports.

## **Business Infrastructure**

Romania's existing transportation network requires extensive improvement. Since 1993, the government, with the support of the European Bank for Reconstruction and Development (EBRD), the European Investment Bank and the International Bank, has embarked on ambitious modernization programs. The upgrading of roads and railways is estimated to be over US\$405 million. To increase transit through Romania to Southern Europe and Asia Minor, a trans-European motorway is being planned with considerable foreign investment. Romania has four international airports, and has received an external credit of US\$59.9 million for the modernization of the Bucharest-Otopeni International Airport.

## **Distribution and Sales Channels**

An encouraging development of the transition process in Romania has been the dramatic growth of the new private sector. This growth has largely occurred in trade and services and, as yet, is mainly centred on small and medium-sized companies.

Nevertheless, these firms represent a respectable nucleus for Canadian firms seeking distribution channels. Currently, the private sector accounts for

97 percent of all companies incorporated, generates 29 percent of the employment and 28 percent of the turnover. However, in the trade area, private companies account for 56 percent of the turnover.

Private firms have also expanded into foreign trade. The monopoly of the former foreign trade organizations was abolished in February 1990, and private enterprises are permitted to participate freely in import and export activities. The number of economic agents carrying out foreign trade activities has increased to over 30,000 commercial companies. The new companies tend to focus on consumer goods. Private sector trading now accounts for 32 percent of imports and 29.4 percent of exports.

Foreign goods are increasingly being imported into Romania. Importing has been in many cases the first and only activity of new private businesses. One very interesting aspect of current foreign trade activity is that the intermediary role played by both state and private trading companies is coming under pressure as state-owned manufacturing companies are becoming more interested and capable of undertaking international transactions by themselves. Indeed, private, but also autonomous state-owned companies, are now free to make their own business decisions and to import or export directly, without the help of intermediaries. Moreover, these companies are entitled to retain 100 percent of their after-tax foreign earnings for their own use.

However, these positive developments are accompanied by some aspects that have a restrictive influence:

- The wholesaling and retailing systems are not yet completely structured.
- Obtaining information on the market is difficult due to the lack of published information.
- The typical private company set up during this early period is a limited liability company, devoted primarily to conducting domestic trade or import-export activities. These companies typically have few partners and low capitalization. Shortage of capital, limited collateral, and lack of experience, channels entrepreneurs towards activities where initial

investments are low, and returns can be made rapidly such as trade and services.

- Little improvement in the availability of local credit is seen in the short-term. Moreover, the financial means of companies are most often extremely limited and cannot be relied upon in terms of business financing. Access to capital encompasses not only venture capital for private entrepreneurs, but also expansion of capital required to modernize existing installations, an issue particularly important in Romania.
- Sometimes “free market” appears to be confused with “no-rules market,” where doubtful business practices may prevail.
- The extent of personnel training, although good, is not comparable to what is found in other Eastern European countries.

All these drawbacks do not offset the profitability of entering the Romanian market, but highlight the search for a local partner, which remains difficult given the current situation of the Romanian economy. Canadian companies will still have to fight hard bureaucratic obstacles.

The marketing of building products and services in Romania, is inhibited by the lack of a developed network of large distributors and wholesalers. Import and retail operations are handled by state and private companies. Distribution channels are being established and the most common means of accessing them is through a local partner, or by exporting through a consolidator. The Romanian Chamber of Commerce and Industry maintains a Trade Register which documents all business organizations and their activities. It offers information to companies and can help with identifying interested agents, partners, and distributors.

As a result of price liberalization in 1990, the prices of over 90 percent of production and consumption goods are regulated by demand and supply. Therefore, the vast majority of prices are set and negotiated freely by companies. However, a Government Decision (206/1993), stipulates that beneficiaries have to be notified 30 days in advance of any intention to increase prices. Products in Romanian markets need to be introduced gradually. As in other markets, sales are price sensitive, although the high quality and



good reputation of Canadian building materials and products, is an asset.

At present, there are no laws that regulate the relationship between a foreign company and its distributors. A distributor relationship can be terminated according to the provisions outlined in each specific distributor agreement.

## Finding a Partner

The choice of a local partner is a critical step, and Canadian exporters must have access to local knowledge as a central foundation in making their decision. Progressing through the early and unstable stages of the process toward a free market economy, the Romanian situation is complex and difficult for foreigners. It is recommended that Canadian companies invest sufficient time to ensure that the selected Romanian firm is fully capable and reliable.

Fortunately, well qualified expertise and capability exists in Romania. Romanian specialists are very skilled, very good at technical matters, although they have been isolated for nearly two decades from the main stream of technical knowledge. What they need is minimal updating and more experience in marketing techniques. One very interesting point is that during the last two decades local specialists erected many industrial facilities in neighbouring countries. Indeed, a significant number of outside turnkey projects have been performed by Romanian firms. The experience acquired through carrying out large-scale projects could be very useful to Canadian firms that form associations with Romanian partners both locally and in other markets.

## Joint Ventures and Licensing

Romanian production costs are among the lowest of the former Comecon countries and constitute a major attraction for foreign investors. Most foreign companies involved in local manufacturing and practically all associations with large companies are organized under joint venture agreements. This is due to the fact that the joint venture often results from a negotiation process with large state-owned entities. Also, potential Romanian partners do not represent a continuum of size and types, but are rather polarized between large state complexes and small private

entrepreneurs. This reflects the lack of medium-sized local companies, either private or public, and usually due to a lack of any competition.

The short-term advantages of joint ventures (quick market access by taking over existing installations) could theoretically be outweighed by long-term drawbacks in terms of management efficiency and freedom. However, joint ventures provide some advantages. The knowledge of the local business culture, whether on the market or administrative sides is critical. Having the right partner may considerably speed up and ease the process of creating and developing optimal local business.

Tax advantages for joint ventures are another frequent expectation of Western managers. These tax advantages are linked to bringing foreign capital into Romania, as tax laws provide tax relief for both joint ventures and wholly owned foreign subsidiaries.

## Establishing an Office

Foreign companies have numerous options available for organizing business operations in Romania.

**Representative offices:** Foreign corporations are entitled to set up representative offices in Romania. While representatives cannot enter into commercial contracts on their own, they are entitled to enter into contracts on behalf of their parent organizations. Establishing a representative office with the Ministry of Commerce, Department of Foreign Trade, is a straightforward matter. A nominal fee is levied and general information must be provided on the name of the office, its intended activities, and the name and address of the individual trade representative.

**Branches and subsidiaries of foreign companies:** A foreign corporation can carry out business in Romania through a subsidiary or a branch. Law No. 105/92 on International Private Relations adopts the accepted international practice by which a corporation is governed by the law of the jurisdiction of its incorporation. In Romania, the branch of a foreign company is subject to the national law of the parent company. Legally, the branch has no separate status from the foreign company itself, it is merely carrying on business in Romania. The foreign company will be



liable to the employees and creditors of the branch for the actions of, and debts contracted by, its managers and agents on behalf of the branch. In contrast, the subsidiary of a foreign company in Romania is a Romanian legal entity and, consequently, is subject to Romanian law. It is liable on its own behalf for the actions taken by its management. Subsidiaries and branches can carry out only the activities for which the parent company is chartered.

**Commercial companies:** As in other industrialized countries, commercial enterprises may be formed in Romania as separate legal entities. This means they operate in their own right and are distinct from their shareholders and managers. Organizations have their own names, management, head office, and places of business. The most commonly used forms of business organizations are limited liability companies and joint stock companies. Currently, the majority of corporations registered to do business in Romania, whether domestic or foreign-owned, are limited liability companies.

**Joint ventures:** Joint ventures in Romania are not separately regulated by Romanian law. The term “joint venture” is a commonly used term to describe any of a number of forms of economic activity with international investment, including: a joint stock limited liability company with Romanian as well as international investors; a partnership of two or more companies or individuals, including international investors; and a contract for production using imports with some type of production sharing (also known as a cooperation agreement).

The establishment and operation of companies is regulated by Company Law 331/1990. Businesses in Romania can be established in the following forms: general partnerships; limited partnerships; limited liability companies; joint stock companies; and limited joint stock companies. The five types of companies can establish subsidiaries, branches or representative offices; subsidiaries of foreign companies are normally established as limited liability or joint stock companies. Joint ventures are not separately regulated by the Romanian law. Instead, the term used to describe them is economic activities which have a contribution of foreign capital.

## Selling Factors and Techniques

Quality, price and payment conditions are the most important factors in determining who will succeed in concluding business in Romania. The Romanian market, like all former East European markets, is still cash poor although Romania's low foreign debt situation may stand it in better stead than its neighbours. A company's willingness to entertain long-term credit arrangements, barter transactions and such concepts as processing contracts will put it in a better competitive situation vis-à-vis others interested in doing business in Romania.

Most germane to the Romanian industry, a considerable part of the equipment and technologies now in place is European in origin, purchased in the 1960s and 1970s. Canadian companies will recognize that if the competition's products are already in place, no matter how old, that competition may have the advantage when it comes to rehabilitation or replacement. Again, price, payment conditions, and service can offset such effects.

## Advertising and Trade Promotion

Accompanying Romania's change to a market economy has been notable growth in the advertising field. Key aspects of this growth include: increased quantity and quality of media and the development of professional advertising agencies and related services, some of them North American.

Television is the predominant media type followed by radio, press, outdoor advertising and movie advertising. The press includes both newspapers (daily and weekly) and magazines. Over 60 percent of the population is reported to read one or more newspapers a day. Specialty trade publications are a major aspect of the weekly newspaper and magazine segment.

Specialized services, such as market research and market testing are available from independent suppliers (IRSOP and IMAS) as well as established institutes (Institute of World Economy and Romanian Chamber of Commerce and Industry). However, experienced companies and people in marketing studies are very rare. For production, there are some independent facilities (Domino and Magnum) as well as the in-house operations of the major agencies.

Running an effective television campaign in Romania will cost between \$45,000-\$60,000. Therefore, Romania is one of the least expensive countries for television marketing. The main television channels are Romanian National TV 1 & 2, and the cost per minute is between \$4,300-5,600. Radio is a secondary form of marketing, and the main radio stations in the country are *Romania Actualitat*, *Romania Cultural* and *Romania Minaret*. The cost of advertising on radio is about \$250 per minute. The printed press also offers marketing opportunities. The main Romanian newspapers are: *Adevarul*, *Romania Libera*, *Evenimentul Zilei*, *Capital & Tribuna Economica*. The average cost of advertising in the newspapers is about \$3 per cm<sup>2</sup>.

Fairs and exhibitions provide a good opportunity for contacts and negotiations. A branch of the Chamber of Commerce operates the major annual fair, TIBCO, held every October in Bucharest.

## Pricing Products

Motivated by desires to control the pace of price inflation, to limit immoderate markups by monopolies, and to ease the costs of adjustment to new price levels, the policy of gradual price liberalization promoted by the government proved difficult to implement. In May 1993, the number of goods for which subsidies were being provided was dramatically reduced. This action was accompanied by the elimination of government control on sales margins, and the elimination of advanced price increase notification. Furthermore, price controls were eliminated, and only the prices of goods and services provided by public utilities (i.e., energy, railways), state procurement prices on some agricultural products, rents on housing, and the prices of bread and milk remained administered. Therefore, price controls apply exclusively to a limited number of products manufactured by state-owned companies. These limits do not apply to the sales of other companies.

## Sales Service and Customer Support

Finding good local partners is a matter of careful effort. The lack of good local service companies is also a problem. However, with suitable training this problem can be satisfactorily solved. The lack

of exposure to Western practices in the past has left a legacy of indifference to after-sales service. Canadian companies should pay attention to ameliorating these attitudes in their operations.

## Selling to the Government

During the first years after the revolution, many foreign companies avoided dealing with local state-owned firms. However, they may be the only possible partner or customer in some market segments. Although North American companies should know that bureaucracy and corruption are quite a challenge, it is apparent that local authorities are anxious to collaborate with foreign companies and changes in the legal framework generally are headed in the right direction, albeit slowly. In those industries considered as "strategic" by the Romanian government, such as natural resource exploitation and essential basic industries and infrastructure, the Canadian Embassy can be helpful in providing names of contacts and making introductions.

## Protecting Your Intellectual Property

Applications for the grant of a patent, or the registration of a trademark need to be made to the State Office for Protection of Patents. Registered trademarks are valid for 10 years. According to the new Patent Law, foreigners and Romanians have equal rights; consequently, the validity of the patent has been extended to 20 years. Intellectual property rights can be enforced through Romanian court action.

## Need for Local Legal Assistance

Company incorporation, as well as conflicts resulting from possible late payments, debt recovery and bankruptcy might generate the need for local legal assistance.

**Late payments and debt recovery:** The transformation of the state-run economy into a market economy has seen a tendency for some enterprises not to pay their debts on a timely basis. As a result, a regulation has been introduced specifying that invoices and other agreed-on amounts unpaid within 10 days of presentation or at the specified due date will incur interest at the rate of 0.15 percent per day (54.75 percent per year). Romania's civil law for contracts is set out in the Civil Code, which closely follows the



French civil code, and the Commercial Code, which is modelled on the Italian commercial code. The existing body of law covers the areas of title and pledging title, protective creditor remedies, and debt recovery. Romanian law recognizes the existence of mortgages for immovable property and pledges for movable property. Thus, assets can be pledged as collateral for loans and as guarantees.

**Financial discipline and bankruptcy:** As part of the restructuring process, certain large enterprises with financial and other problems are now under a regime of financial discipline. The regime, under coordination of the National Commission for Restructuring, involves limits on their abilities to incur debts as well as a requirement for development of a plan for restructuring or dissolution through bankruptcy. Legal assistance has improved considerably. Western law firms, including some North American ones, are available in Romania.

## Regulatory Issues

**Investment Climate:** Because Romania is anxious to move towards a market economy, foreign investment into the country, is actively encouraged, especially since the creation of the Romanian Development Agency. This agency offers many services to potential foreign investors such as: identifying local partners, providing consultancy services, and offering assistance for the development and expansion of small and medium-sized businesses. Foreign investment is permitted in almost all economic sectors in the country including industry, trade, tourism, technology, banking, construction, insurance, and scientific research. The business climate in Romania is very receptive to Western companies. Investment laws are non-discriminatory to foreign investors, with the legislation protecting their rights extensively. In addition, Romania is a member of the Multilateral Investment Guarantee Agency. In 1996, Canada and Romania negotiated a Foreign Investment Protection and Promotion Agreement (FIPA), to protect Canadian investors in Romania.

**Investment Incentives and Taxation:** Foreign investors are granted a considerable package of tax incentives including: customs duty holidays, VAT

exemption on imports necessary to foreign investors, as well income tax exemptions under certain circumstances. The current legislation in Romania has made provisions for the establishment of Free Trade Zones, under Law No. 84 approved in 1992. In these zones, businesses are exempt from customs duties and value-added tax, the unrestricted import and re-export of goods is allowed, and payment can be made in foreign currency. In addition, for activities performed within the free trade zones, companies receive an exemption from profit taxes.

**Taxes:** Romania has restructured its taxation system to adjust to a market economy. The principal types of taxes are: basic corporate tax (38 percent), non-residents (10 percent on dividends, 15 percent on services, and 20 percent on royalties), personal income tax rate (5-60 percent for salaries over 964,100 lei), taxes on buildings (1-1.5 percent of the book value), taxes on land (15-120 lei per m<sup>2</sup>, differentiated according to location). Value-added tax is regulated by the Government Ordinance No. 3/1992. The following are taxable: delivery of goods and services (18 percent) and transfer of real estate (18 percent). The new government has proposed substantial changes in the tax system to encourage business and reduce tax evasion. Canada has signed a double taxation agreement with Romania.

**Repatriation of Profits and Capital:** There are no restrictions on the repatriation of profits. A company can convert its profits from lei to other currency, provided that the conversion is completed through the official bank intermediaries. In order to have Romanian currency outside the country, a company must receive permission from the National Bank, once necessity is demonstrated.

**Labour Costs:** Romania offers a well-trained work-force. Collective agreements may be negotiated between the companies and employees, to outline areas such as: work conditions, paid holidays, social security provisions, and duration of contract. Trade unions play an important role in defending the rights, and the promotion of the professional, economic and social interests of the employees. The average monthly wage rate in Romania is US\$110, and employees are entitled to a yearly paid leave of 18 days. The retirement age



for men is 60 years and for women 55 years. Employer social contributions are as high as 40 percent of the monthly salary and have the following distribution: social security (23-33 percent), unemployment insurance (5 percent) and health insurance (2 percent).

**Real Estate:** Prior to 1990, most property in Romania was state-owned. Industrial and commercial properties were either state-owned or collective property; most farmland, and the majority of the housing stock, were state-owned. The Land Law of 1991 guarantees the ownership of real estate and specifies property rights. Foreigners in Romania may purchase commercial and industrial buildings, but cannot acquire or buy land. However, according to the Foreign Investment Law 35/1991, and amended in August 1993, a joint venture or partnership can be established with Romanian legal persons, whose contribution to the company includes ownership of land and other immovable estate. The new government has proposed legalizing the ownership of land by foreigners, under certain restrictions.

**Exporting:** Most housing-related products can be imported without a licence. The importation of products does not generally require extensive paperwork with customs clearance occurring at the final destination. The onward transportation of goods by road and rail is adequate, although importers complain about long waits at border crossings. Canadian exporters often ask for cash in advance until they have established a track record with new customers.

**Customs Duties:** Romania has customs duties of 11-60 percent. Since July 1, 1995 customs duties are applied according to the rates stipulated in List 3 LXIX—the Annex Branch of The Marrakech Protocol. A customs commission rate of 0.5 percent of the customs value is applied to all imported products. There are no quantitative constraints on imports of housing sector products and services. Imports are subject to an 18-percent value-added tax, and all goods imported as initial capital investment are exempt from customs duties.

**Product Certification:** Romania has an association agreement with the European Union, and product certification is moving towards ISO 9000 standards. Approval times vary from

2-6 months, however products certified by other European countries will usually be processed quickly.

## EDC Financial Risk Assessment

*The Export Development Corporation (EDC) helps Canadian companies compete in world markets through the provision of financial and risk management services. These include export credit insurance, financing to foreign buyers of Canadian goods and services, and guarantees.*

*The following information was obtained from the EDC Country Risks and Opportunities book (fall, 1996).*

The following issues should be taken into consideration when assessing financial risk in Romania:

- Romania is in the fourth year of economic recovery from the recession that followed the collapse of communism. The economy grew by 5 percent in 1995, but this was achieved through increased domestic demand via financial laxity in the public and para-public sectors, which in turn led to a rise in inflation and a surge in imports. This development forced the authorities to apply the brakes. Interest rates were pushed up, the banks' foreign exchange reserve requirements were raised, and government expenditures were curtailed. But these measures are politically unpopular in a pre-election period, and were relaxed in the second half of 1995. Much the same mix of policies was maintained in 1996.
- While exports grew in 1995 by 21 percent to US\$7.4 billion, imports surged by 35 percent to US\$8.9 billion. The trade and current account deficits deteriorated to US\$1.5 billion and US\$1.6 billion, from their 1994 level of US\$0.5 billion each. This resulted in significant pressure on foreign exchange reserves.
- Government attempts to maintain the currency at the over-valued rate of about 3,000 Lei to the dollar - instead of the black market rate of 3,600 Lei to the dollar - led to the de facto closing of the inter-bank currency market in March 1996. In the wake of growing foreign exchange shortages, the authorities imposed stringent foreign exchange controls in August.

Particularly, Portexport, Romania's main oil trading company, had to re-schedule import payments, while some international oil traders say they have stopped or reduced supplies because of unpaid bills. The slump in oil imports is depleting stocks earmarked for winter, and shortages are forcing periodic shortages at gas stations. Moreover, Romania's exports are highly dependent on imports, not the least, semi-finished products and oil and gas. Consequently, the cutback in imports will likely impact export performance.

- After being virtually debt-free at the end of the Ceaucescu era, Romania's foreign debt has grown rapidly to an estimated US\$7.7 billion, of which US\$6.2 billion consists of medium- and long-term debt. Of this, about US\$2.4 billion is owed to international financial institutions.

- Foreign direct investment (FDI) in Romania is among the lowest in the region at around US\$79 per person over six years, compared to Hungary's US\$970 per person. The reasons for low FDI include inadequate infrastructure, a ponderous bureaucracy, and inadequate financial markets.

The overall collection experience in Romania is poor and deteriorating. Very secure trading terms are the norm. Extreme caution is recommended with credit and financial issues. ILCs opened by Banca Romana de Comen Exterior S.A. are recommended. Reform of the banking sector has been slow. The banking system remains highly inefficient and is dominated by large state-owned banks.

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# CONTACTS

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## Canada Mortgage and Housing Corporation

Housing Export Centre

700 Montreal Road  
Ottawa, Ontario K1A 0P7

Tel.: 1-800-465-6212 or  
(613) 748-2000  
Fax: (613) 748-2302

## Canadian Government Departments and Services

Department of Foreign Affairs and  
International Trade (DFAIT)

InfoCentre  
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Ottawa, ON K1A 0G2

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Fax: (613) 996-9709  
FaxLink: (613) 944-4500  
InfoCentre Bulletin board:  
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(613) 944-1581

Southern Europe Division (RES)  
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Ottawa, ON K1A 0G2

Tel.: (613) 992-0637/944-1562  
Fax: (613) 995-8783

Canadian Commercial Corporation  
(CCC)

50 O'Connor Street, 11th Floor  
Ottawa, Ontario K1A 0S6

Tel.: (613) 996-0034  
Fax: (613) 995-2121

Canadian Embassy

36 Nicolae Iorga  
Bucharest, Romania

Tel.: (011)-40-1) 222-9845/  
312-0365  
Fax: (011-40-1) 312-0366

## International Trade Centres

Newfoundland

International Trade Centre  
P.O. Box 8950  
Atlantic Place  
215 Water Street  
Suite 504  
St. John's, NF A1B 3R9

Tel.: (709) 772-5511  
Fax: (709) 772-5093

Prince Edward Island

International Trade Centre  
P.O. Box 1115  
Confederation Court Mall  
134 Kent Street  
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Tel.: (902) 566-7443  
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Nova Scotia

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Tel.: (902) 426-7540  
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Alberta <i>* Edmonton office is also responsible for Northwest Territories</i>	International Trade Centre Canada Place 9700 Jasper Avenue Room 540 Edmonton, AB T5J 4C3  510-5th Street S.W. Suite 1100 Calgary, AB T2P 3S2	Tel.: (403) 495-2944 Fax: (403) 495-4507  Tel.: (403) 292-4575 Fax: (403) 292-4578
British Columbia <i>*Vancouver office is also responsible for the Yukon</i>	International Trade Centre 300 West Georgia Street Suite 2000 Vancouver, BC V6B 6E1	Tel.: (604) 666-0434 Fax: (604) 666-0954

## Export Development Corporation (EDC)

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Montreal	Tour de la Bourse 800 Victoria Square Suite 4520 P.O. Box 124 Montreal, PQ H4Z 1C3	Tel.: (514) 283-3013 Fax: (514) 878-9891
Halifax	Purdy's Wharf, Tower 2 1969 Upper Water Street Suite 1410 Halifax, NS B3J 3R7	Tel.: (902) 429-0426 Fax: (902) 423-0881

## Multilateral Organizations

World Bank	Washington, D.C. 20433 U.S.A.	Tel.: (202) 477-1234 Fax: (202) 477-6391
Office for Liaison with International Financial Institutions	Canadian Embassy 501 Pennsylvania Avenue N.W. Washington, D.C. 20001	Tel.: (202) 682-7719 Fax: (202) 682-7726

## Business and Professional Organizations in Canada

Alliance of Manufacturers and Exporters Canada	99 Bank Street, Suite 250 Ottawa, ON K1P 6B9	Tel.: (613) 238-8888 Fax: (613) 563-9218
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## Business and Professional Organizations in Canada (cont'd)

Canadian Romanian Council of Trade and Commerce	2525 St. Laurent Blvd. Suite 203 Ottawa, Ontario K1H 8P5	Tel.: (613) 737-2922 Fax: (613) 733-9501
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## Canadian Banks with International Offices

Bank of Montreal	11 Walbrook Street London, England EC4N 8ED	
Canadian Imperial Bank of Commerce European Operations Office	Cottons Centre Cottons Lane London, SE1 2QL, England	Tel.: (011-441-71) 234-6000
National Bank of Canada Europe Regional Office	Princes House 95 Gresham Street London, England EC2V 7LU	
Royal Bank of Canada AG	P.O. Box 71 07 14 Lyonner Strasse 15 60497 Frankfurt am Main, Germany	
The Toronto-Dominion Bank	Triton Court 14/18 Finsbury Square London, England EC2A 1DB	
Hongkong Bank of Canada	10 Lower Thames Street P.O. Box 506 London, England EC3R 6AE	

## Romanian Government Offices in Canada

Embassy of Romania	655 Rideau Street Ottawa, ON K1N 6A3	Tel.: (613) 232-5342 Fax: (613) 567-4365
Consul General of Romania	1111 St. Urbain Street Suite M01.04 Montreal, PQ H2Z 1X6	Tel.: (514) 876-1792 Fax: (514) 876-1797
Consul General of Romania	111 Peter Street Toronto, ON M5V 2H1	Tel.: (416) 585-5802 Fax: (416) 585-4798

## Romanian Institutional Support for Housing Importers

Council for Economic Coordination, Strategy and Reform	Piata Victoriei 1 71201 Bucharest, Romania	Tel.: (011-40-1) 312-47-67 Fax: (011-40-1) 222-46-86 Telex: 11057
Ministry of Industry	Calea Victoria 152 71101 Bucharest, Romania	Tel.: (011-40-1) 650-50-20 / 650-41-90 Fax: (011-40-1) 650-30-29 / 312-05-13 Telex: 10640 TXBWZ R; 11109 A MIND R
Ministry of Trade	Str. Apolodor 17 70663 Bucharest, Romania	Tel.: (011-40-1) 410-02-74 / 410-72-87 / 410-71-74 Fax: (011-40-1) 312-23-42 Telex: 10564 MCEXT R
Romanian Development Agency	Blvd. Gh. Magheru 7 70161 Bucharest, Romania	Tel.: (011-40-1) 615-46-93 / 312-28-86 / 615-66-24 Fax: (011-40-1) 312-03-71 Telex: 11027 ARD R
National Agency for Privatization	Str. Ministerului 2-4 70169 Bucharest, Romania	Tel.: (011-40-1) 615-85-58 / 222-38-60 / 222-38-50 Fax: (011-40-1) 312-08-09 Telex: 11438 ANP R
Chamber of Commerce and Industry of Romania	Blvd. N.Balcescu 22 70122 Bucharest, Romania	Tel.: (011-40-1) 615-47-03 / 615-47-04 / 615-47-05 / 312-13-12 Fax: (011-40-1) 312-38-30 / 312-20-91 Telex: 11374 A CAMRO R



## Romanian Institutional Support for Housing Importers (cont'd)

National Office of the Commercial Register Chamber of Commerce and Industry of Romania	Bld. Expozitiei 4 78334 Bucharest, Romania	Tel.: (011-40-1) 312-78-45 / 312-78-47 Fax: (011-40-1) 312-96-61
Free Zones Agency	Bld. Dinicu Golescu 38 77113 Bucharest, Romania	Tel.: (011-40-1) 223-08-80 / 223-06-06 Fax: (011-40-1) 311-07-28
Fairs and Exhibition Company	Bld. Marasti 65-67 P.O. Box 32-3 71331 Bucharest, Romania	Tel.: (011-40-1) 223-11-60 Fax: (011-40-1) 312-84-00 Telex: 11108 TIB R
Official Gazette Department of Publicity and Sales	Str. Blanduziei 1 7012 Bucharest, Romania	Tel.: (011-40-1) 211-57-30
State Office for Inventions and Trade Marks	Str. Ion Ghica 5 70418 Bucharest, Romania	Tel.: (011-40-1) 615-19-66 Fax: (011-40-1) 312-38-19 Telex: 11370 ROPAT R
National Bank of Romania	Str. Lipscani 23-25 70421 Bucharest, Romania	Tel.: (011-40-1) 615-27-50 / 614-02-62 Fax: (011-40-1) 312-38-31 Telex: 11136 Banca Nationala a Romaniei BUC R

## International Consultants and Business Service Providers

Arthur Andersen & Co SRL	Str. Sfatul Spiridon 12, Ap. 16 70231 Bucharest, Romania	Tel.: (011-40-1) 210-72-60
Coopers & Lybrand Romania SRL	Bld. Hristo Botev 28 70472 Bucharest, Romania	Tel.: (011-40-1) 312-36-00 / 312-36-02 / 312-09-79 Fax: (011-40-1) 312-09-78
Price Waterhouse Romania SRL	Str. Vasile Conta 3-5, Sc.C, Etaj 3, ap.72 70138 Bucharest, Romania	Tel.: (011-40-1) 311-24-55

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Check only one (individuals must prepay all orders.)

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<input type="checkbox"/>	VISA <input type="checkbox"/> American Express <input type="checkbox"/> MasterCard <input type="checkbox"/>
Card Number	
Expiry Date	
Signature	
<input type="checkbox"/>	Payment enclosed    \$ _____
Please make cheque or money order payable to CMHC	

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	<p align="center"><b>Subtotal</b> (Add A + B)</p>		<b>C</b>	
	<p align="center"><b>ADD GST</b> (7% of subtotal C)</p>		<b>D</b>	
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2	3.65	8.00	6.50	14.00	9.00	30.00	25.00
3 to 5	5.80	11.07	8.11	30.75	12.18	63.75	47.75
6 to 10	6.18	11.07	12.46	34.75	20.61	88.75	55.75
11 to 20	6.43	12.35	18.08	42.75	38.77	118.75	71.75
21 to 40	6.94	14.90	23.81	58.75	64.65	193.75	103.75
41 to 60	7.44	17.62	29.48	74.75	68.12	253.75	129.75
61 to 80	7.95	20.51	35.15	90.75	117.36	313.75	149.75
81 to 100	8.45	23.35	40.92	106.75	146.60	373.75	169.75
101 to 120	8.96	26.20	46.59	120.75	166.71	433.75	189.75
121 to 140	9.46	29.05	52.31	134.75	184.72	493.75	209.75
141 to 160	9.97	31.90	58.00	148.75	207.45	553.75	229.75
161 to 180	10.47	34.75	63.71	162.75	228.92	613.75	249.75
181 to 200	10.98	35.60	69.38	176.75	250.29	658.75	269.75
201 to 220	11.48	40.45	75.05	190.75	N/A	718.75	289.75
221 to 240	11.99	43.30	80.72	204.75	N/A	778.75	309.75
241 to 260	12.49	46.15	86.49	218.75	N/A	838.75	329.75
261 to 280	13.00	49.00	92.21	232.75	N/A	901.75	349.75
281 to 300	13.50	51.85	97.88	246.75	N/A	958.75	369.75
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NHA 8003	Brazil	1	35.-	35.-	3	3
NHA 8009	Western Europe	2	23.-	46.-	3	6
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<b>SOURCE</b> <small>(How did you hear about the product?)</small>  TV AD <input type="checkbox"/> CATALOGUE NEWSPAPER <input type="checkbox"/> FLYER/BROCHURE MAGAZINE <input type="checkbox"/> OTHER		Subtotal Column 3		A 81.-	Subtotal Column 5	9
		<b>SHIPPING CHOICE</b> Regular Mail <input checked="" type="checkbox"/> Courier <input type="checkbox"/>		ADD Shipping & Handling		
		Subtotal (Add A + B)		C 87.18		
<b>U.S. AND INTERNATIONAL ORDERS</b> Please pay subtotal C in U.S. Funds (do not add GST or PST)		Registration #100756428		ADD GST (7% of subtotal C)		
				Subtotal (Add C + D)	E 93.28	
				Quebec residents add PST (6.5% of Subtotal E)	F -	
				Total (Add E + F)	G 93.28	

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